

Tracking Apple Pay: February 2015 Update

Overview: Apple has released its FY 15 first quarter results and provided highlights associated with Apple Pay. In this update we report on these items and other recent highlights related to the service.

Continued Traction With Issuers: Apple Pay's Biggest Success So Far

- 54 issuers are now live including 20 of the top 50 largest card issuers; the remaining include many smaller issuers, primarily credit unions
- Apple reports that these issuers represent 90% of total U.S. card volume
- Apple has not reported a timetable for adding more issuers, but announced it has ~750 banks and credit unions in the queue

Merchant Acceptance Update: Apple Continues to Add Key Partners, But Little Progress with the Largest Retailers

- Apple has announced the addition of several grocery merchants, a key everyday spend category including Lucky, Save Mart and FoodMaxx (Acme and Albertsons are coming soon)
- Gas, another key everyday spend category, will be added soon; Chevron announced it will launch Apple Pay in early 2015
- Apple Pay accounts for 80% of Panera Bread's mobile payments made via NFC (similar acceptance technology to Google Wallet and Softcard)
- USA Technologies will also support Apple Pay on more than 200,000 vending machines, kiosks, parking meters, and laundry machines

Promotions and Advertising: Led by Largest Card Issuers

- Several of the largest card issuers continue prominent advertising in multiple channels including TV, billboard, online, and mobile app
- Merchants have been less active with some in-store signage at the point of sale (e.g., Whole Foods)

International Market Entry: Apple May Be Getting Ready to Expand Out of the U.S.

- Tim Cook, Apple CEO states, "There is not a day that goes by when I don't get a note from a business outside the U.S. wanting Apple Pay."
- The Telegraph reports that UK banks are in talks regarding Apple 'wave and pay'
- 9to5 Mac also reports that Apple has a Canadian launch planned for early 2015

Consumer Adoption: Early but Encouraging

- Bank of America announced, "...since the introduction of Apple Pay in October (of 2014), nearly 800,000 [Bank of America] customers have enrolled in the service, adding approximately 1.1 million cards." This represents ~2% of their total card base of around 50 MM cards in circulation
- The ITG Mobile Payments report, which uses data from the firm's proprietary consumer panel, found that Apple Pay customers used the service roughly 1.4 times per week, with a return rate of 66% for future transactions at the same merchant

What's Next?

In order to build on its initial success, Apple will need to focus in a few key areas:

- Driving further consumer adoption / interest
- Increasing merchant acceptance

Apple will be assisted on the first count as customers upgrade to new iPhone 6 and 6+ devices and can encourage more consumer adoption by driving additional use cases (e.g., acceptance in web browsers, payments via the new Apple Watch, perhaps adding PayPal as a funding option, vending, etc.). Merchant acceptance may be slower; the top five largest retailers (Wal-Mart, Kroger, Costco, Target, and Home Depot) do not currently accept Apple Pay in stores (Target offers Apple Pay in its mobile app). Several of these retailers are investors in MCX and are backing CurrentC's expected launch with a competitive mobile payment offering. Also, many merchants have large-scale private label credit programs and/or rewards programs not currently supported by Apple Pay. Apple may not be able to sway these merchants, but history indicates driving overall customer adoption is the surest strategy to achieving merchant acceptance.

For more perspective on these topics and others, please contact:

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Source: The Nilson Report, NFC World, Business Wire, Bank of America, ITG, and Apple.

Figure 1: Chase Apple Pay TV Commercial

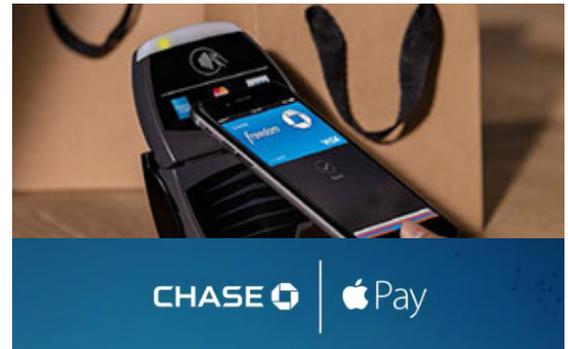


Figure 2: Wells Fargo Apple Pay TV Commercial



Figure 3: Whole Foods In-Store Signs

